

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 193 – SB 131

May 11, 2010

SUMMARY OF AMENDMENTS (015393, 018215): Amendment 015393 deletes all language after the enacting clause of the original bill. Authorizes local governments in counties with a population of more than 150,000 according to the 2000 federal census that do not currently have a medical school to approve the creation of a Medical School Authority (MSA). Requires MSAs to file an application for corporate charter with the Secretary of State (SOS). Requires creation of a MSA board of directors to have no fewer than seven directors appointed by authorizing municipalities. Authorizes the MSA to sell and issue bonds. Requires the Comptroller of the Treasury to perform an audit of each MSA. Authorizes municipalities to assign or loan office space, equipment, or employees to the MSA. Authorizes municipalities to make donations of property or cash grants to a MSA. Exempts MSAs, and all property owned by the MSA, from state and local taxes. Authorizes local governments to pledge their full faith and credit and unlimited taxing power as security on bonds. Requires municipalities to give public notice five days before a meeting when consideration is to be given to securing MSA bonds. Authorizes municipal governments to allocate funds directly to the construction, improvement, financing or operation of facilities managed by an MSA.

Amendment 018215 defines "THEC" as the Tennessee Higher Education Commission. Prohibits use of any state funds for a MSA prior to approval from THEC. Requires THEC to determine if a proposed medical school and MSA meets specific criteria unless the proposed project is completely funded without state dollars. Prohibits the Comptroller from approving state issued bonds until THEC approval is received.

FISCAL IMPACT OF ORIGINAL BILL:

MINIMAL

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

**Increase State Expenditures – \$35,000/One-Time
Not Significant/Recurring**

**Increase Local Expenditures – \$300/One-Time /Permissive
\$600/Recurring/Permissive
\$6,757,500 – 1st Year Debt Service/Permissive**

\$95,178,800 Over the life of the bonds
\$51,000,000 Principal
\$44,178,800 Interest

Forgone Local Revenue – \$2,160,400/Recurring/Permissive

Other Fiscal Impact – There will be an increase to state and local government revenue generated from a new medical school within Sullivan County; however, because of multiple unknown factors such as the number of jobs created and any increase to state or local sales tax collections, an amount cannot reasonably be determined.

Assumptions applied to amendments:

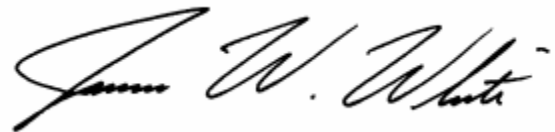
- This bill applies to Knox, Hamilton, Sullivan and Rutherford Counties. The number of communities that will establish a MSA is unknown. Estimate assumes there will be only one.
- King College in the City of Bristol has proposed a new school of medicine. It is unknown how many other jurisdictions will authorize a MSA.
- MSA meetings will occur during regular business hours at municipal or county owned buildings and will not result in a significant increase to local government expenditures.
- Commissioners will be eligible for reimbursement for travel expenses. Such expenses are estimated to be not significant and can be accommodated within a municipal or county government's current resources. Mileage reimbursement is calculated at \$0.45 per mile. Seven commissioners will be required to travel fifteen miles round-trip to an estimated twelve meetings per year resulting in a recurring increase to local government expenditures of \$567 (7 x 12 x 15 x \$0.45).
- According to the SOS, the BEAR system currently used for filing corporate registrations contains a "public authority" code. A coding change will be required to specify a "medical school authority" resulting in a one-time not significant increase in state expenditures. Any increase in state expenditures can be accommodated within existing resources without an increased appropriation or reduced reversion.
- According to the Office of the Comptroller, conducting an audit of MSAs will not result in a significant increase to state expenditures and can be accommodated within existing resources without an increased appropriation or reduced reversion.
- Loaning office space or staff to the MSA will only occur when such space or staff is available and will not result in a significant increase in expenditures to local governments.
- The number of potential properties and the total tax value of such properties owned by an MSA are undetermined. The combined property tax rate for the City of Bristol and Sullivan County is 4.3207 percent. Estimate assumes the value of such properties will equal at least the value of the capital investment financed through the sale of bonds (or \$50,000,000). Exempting property owned by MSAs from property taxes will result in forgone revenue to local government that exceeds \$2,160,350 (\$50,000,000 x 0.043207).
- According to King College, the total project cost of the proposed medical school is \$150 million. Approximately \$50 million will be private funds, \$50 million will be public

funds including grant dollars and \$50 million will be from the sale of revenue bonds by Sullivan County and the cities of Bristol and Kingsport.

- Local governments will advertise in local newspapers at least five days before considering the issuance of bonds for the purpose of funding any MSA. A survey of newspapers across the state revealed the average cost to advertise for a public meeting is \$108 resulting to an increase in local government expenditures of \$324 (\$108 x 3).
- The governments of Sullivan County and the cities of Bristol and Kingsport will equally share debt service obligations resulting from the sale of revenue bonds.
- Based on information provided by King College and Sullivan County, \$50 million in bonds will be issued for a MSA to design, construct and operate a medical school or dental school.
- A two percent cost to issue the bonds (or \$1,000,000) will be in addition to the total amount of bonds issued.
- Bonds will be amortized over a 20-year term at an 8.25 percent coupon rate resulting in a first year debt service of \$6,757,500.
- Bonds will be repaid from revenue generated within Sullivan County and the cities of Bristol and Kingsport.
- According to THEC, requiring the department to evaluate medical schools and MSAs prior to the issuance of state bonds or expenditures of other state dollars will require a feasibility study to be performed by a professional consultant.
- Based on information provided by THEC, the one-time increase to state expenditures to conduct a feasibility study will be \$35,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" written in a larger, more prominent script than the last name "White".

James W. White, Executive Director

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